

1 **Q. Given the increase in business risks since the last general rate application referred**
2 **to in the Application of the decline in the provincial economy and the rate increases**
3 **required for the Muskrat Falls Project and the response to CA-NP-025 on actions to**
4 **alleviate electricity price increases, is Newfoundland Power of the opinion that it**
5 **should consider additional cost savings initiatives to those listed in the response to**
6 **PUB-NP-002 to reduce, to the extent possible, imminent rate increases for**
7 **customers? If not, why not? If yes, explain the approach that could be followed,**
8 **including whether the implementation of a productivity or cost reduction allowance**
9 **would be effective?**

10
11 **A. A. Response**

12
13 The provincial power policy outlined in the *Electrical Power Control Act, 1994*
14 effectively requires Newfoundland Power to manage its operations in a manner that
15 results in power being delivered to customers at *the lowest possible cost consistent with*
16 *reliable service*.¹ The Company is of the opinion that its existing approach to cost
17 management is consistent with this statutory requirement and continues to be appropriate.

18
19 Limiting Newfoundland Power's cost recovery in the manner suggested in this question
20 would, in the Company's opinion, be inconsistent with: (i) customers' service
21 expectations; (ii) independent assessment of Newfoundland Power's engineered
22 operations; and (iii) the Company's history of least-cost, reliable service delivery. In
23 Newfoundland Power's view, such a limitation on cost recovery would also be contrary
24 to public policy, which permits recovery of costs that are consistent with the least-cost
25 delivery of reliable service to customers.

26
27 **B. Evaluating Newfoundland Power's Performance**

28
29 ***Customers' Expectations***

30
31 Generally, the majority of customer outages on an electrical system occur at the
32 distribution level.² Maintenance of the distribution system, therefore, typically has the
33 most direct impact on the reliability experienced by customers.

34
35 The importance of service reliability to Newfoundland Power's customers was
36 demonstrated in January 2014 during #darkNL. #darkNL was a 7-day period during
37 which 75% of the Company's customers experienced rotating power outages. The event
38 occurred during cold temperatures, posed serious risks to public health and safety, and

¹ See Section 3(b)(iii) of the *Electrical Power Control Act, 1994*.

² For Region 2 utilities, the Canadian Electricity Association notes that 85% of outage hours in the last 5 years are attributable to distribution-level outages. See *2017 Service Continuity Data on Distribution System Performance in Electrical Utilities*.

1 was not viewed as acceptable by customers.³

2
3 The Board’s consultant in its investigation of #darkNL, The Liberty Consulting Group
4 (“Liberty”), found that #darkNL was caused by the insufficiency of generating resources
5 and issues with the operation of key transmission assets.⁴ Inadequate maintenance
6 practices contributed to these failures.

7
8 Since 2014, service reliability has remained one of the most important issues to
9 customers. Quarterly customer satisfaction surveys indicate customers are currently
10 satisfied with the reliability of Newfoundland Power’s service delivery.⁵

11
12 ***Independent Assessment of Engineered Operations***

13
14 Public policy requires Newfoundland Power to deliver service that is safe and adequate
15 and just and reasonable.⁶ Following #darkNL, the Board had Liberty conduct a
16 comprehensive review of the engineered operations of both Newfoundland Power and
17 Newfoundland and Labrador Hydro (“Hydro”).⁷

18
19 With respect to Newfoundland Power, Liberty found that:

20
21 “Newfoundland Power’s planning and design of its system, its asset management
22 practices, its system operations, its outage management and emergency practices
23 and its customer communications processes all conform to good utility
24 practices.”⁸

25
26 Liberty also found that:

27
28 “Newfoundland Power’s reliability has improved significantly since 1999 and has
29 recently remained stable overall. Its transmission and distribution systems
30 operate effectively in *ensuring adequate service reliability*. Effective
31 maintenance and capital programs, that appropriately recognize the age of its
32 assets, have contributed materially to improved reliability.”⁹ [Emphasis added]

33
34 Liberty’s comprehensive review clearly indicated that Newfoundland Power’s current

³ Of the 80 customer satisfaction surveys issued between 1998 and 2017, the lowest score recorded at any point was in the first quarter of 2014 following #darkNL. Newfoundland Power’s customer satisfaction score was 82% during that quarter. This compares to an average of 88% over the 20-year period from 1998 to 2017.

⁴ The Liberty Consulting Group, *Executive Summary of Report on Island Interconnected System to Interconnection with Muskrat Falls addressing Newfoundland Power Inc.*, December 17, 2014, page ES-1.

⁵ Newfoundland Power’s average customer satisfaction was 87% in 2017.

⁶ See Section 37(1) of the *Public Utilities Act*.

⁷ Section 37(2) of the *Public Utilities Act* provides that the Board may appoint a person to investigate whether a utility’s service is reasonably safe and adequate and just and reasonable.

⁸ The Liberty Consulting Group, *Executive Summary of Report on Island Interconnected System to Interconnection with Muskrat Falls addressing Newfoundland Power Inc.*, December 17, 2014, page ES-1.

⁹ *Ibid.*, page ES-2.

1 strategy for reliability management is consistent with sound public utility practice.¹⁰

2
3 ***Newfoundland Power’s History of Least-Cost, Reliable Service Delivery***

4
5 Electrical system reliability is primarily a function of construction standards, inspection
6 and maintenance practices, and the systematic deployment of resources.¹¹ Newfoundland
7 Power has considered existing levels of electrical system reliability to be adequate for
8 about a decade.¹²

9
10 Table 1 compares Newfoundland Power’s reliability performance in 1997 and 2017
11 under normal operating conditions.¹³

Table 1:
Newfoundland Power’s Reliability Performance
(Normal Operating Conditions)

	1997	2017	% Change
SAIFI	2.72	1.66	-39%
SAIDI	3.73	2.28	-39%

12 Table 1 shows customers have experienced a 39% improvement in service reliability over
13 the last 2 decades. This improvement is reflected in both the frequency and duration of
14 customer outages.

¹⁰ Section 4 of the *Electrical Power Control Act, 1994* effectively requires the Board to apply tests that are consistent with generally accepted sound public utility practice in implementing the power policy contained in the *Electrical Power Control Act, 1994* and the *Public Utilities Act*.

¹¹ More information on Newfoundland Power’s approach to reliability management is provided in response to Request for Information PUB-NP-019. Newfoundland Power’s approach to least-cost, reliable service delivery is typically reviewed by the Board in general rate applications.

¹² In Newfoundland Power’s *2010 General Rate Application*, filed on May 28, 2009, the Company stated it considered then current levels of service reliability to be satisfactory (see Volume 1 (1st Revision), Section 2: Customer Operations, Page 2-8, Line 6). Similarly, the Company has characterized its electrical system performance as reliable in both its *2013/2014 General Rate Application* (see Volume 1, Section 1: Introduction, Page 1-3, Line 10) and its *2016/2017 General Rate Application* (see Volume 1 (1st Revision), Section 1: Introduction, Page 1-3, Line 11).

¹³ Reliability data provided in Table 1 excludes loss of supply and significant events.

1 Table 2 compares Newfoundland Power’s *total* contribution to average customer rates in
2 cents per kWh in 1997 and 2017.¹⁴

**Table 2:
Newfoundland Power
Contribution to Customer Rates**

Unit Cost (¢/kWh)		% Change	
1997	2017	Nominal	Real
3.56	3.99	12%	-24%

3 Table 2 shows that Newfoundland Power’s contribution to average customer rates
4 (¢/kWh) has increased by a total 12% over the last 2 decades. Inflation over this period
5 was approximately 47%.¹⁵ On an inflation-adjusted, or real, basis, Newfoundland
6 Power’s contribution to average customer rates decreased by 24%.

7
8 The Company’s management of its engineered operations has resulted in an improvement
9 in reliability of almost 40% at a reduced cost to customers of approximately 24% over the
10 past 2 decades. This is consistent with Newfoundland Power’s fulfillment of its
11 obligation to deliver reliable service to customers at least cost.

12
13 **C. Public Policy Perspective**

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15 Newfoundland Power’s costs of serving customers have been incurred in a manner
16 consistent with the provincial power policy reflected in the *Electrical Power Control Act,*
17 *1994* and the *Public Utilities Act.* The Company’s capital expenditures are reviewed
18 annually in public applications to the Board. Newfoundland Power’s annual operating
19 costs are typically interrogated by the Board on a triennial basis through general rate
20 applications, including the Company’s current Application. Through these processes, the
21 Board determines what Newfoundland Power costs are consistent with the delivery of
22 least-cost, reliable service to customers and should be recovered through customer rates.

23
24 Nalcor Energy’s Muskrat Falls Project is the single most costly electrical system
25 investment in the history of Newfoundland and Labrador. Unlike Newfoundland Power’s
26 costs, the significant costs related to Nalcor Energy’s Muskrat Falls Project have not been
27 subject to the *Public Utilities Act* or the *Electrical Power Control Act, 1994.*¹⁶ As a

¹⁴ Newfoundland Power’s contribution to average customer rates, as shown in Table 2, reflects the Company’s total cost to serve customers, including all operating costs, depreciation, taxes, and return. It excludes purchased power costs and costs recovered through the Rate Stabilization Account. Total Newfoundland Power costs are divided by sales to determine the cost expressed as cents per kilowatt-hour.

¹⁵ Newfoundland Power calculates inflation using the GDP Deflator for Canada. This is consistent with Order No. P. U. 36 (1998-99).

¹⁶ See the *Muskrat Falls Project Exemption Order under the Electrical Power Control Act, 1994 and the Public Utilities Act* (O.C. 2013-342), dated November 29, 2013.

1 result, these costs have never been adjudged to be reasonable or consistent with the least-
2 cost delivery of reliable service to customers.¹⁷
3
4 In Newfoundland Power’s view, it would be contrary to existing public policy to limit the
5 Company’s ability to recover its reasonable costs of delivering reliable service to
6 customers. This includes limiting Newfoundland Power’s cost recovery to permit
7 recovery of costs related to Nalcor Energy’s Muskrat Falls Project, which have never
8 been determined to be reasonable or consistent with the least-cost delivery of reliable
9 service.

¹⁷ On November 20, 2017, the Government of Newfoundland and Labrador announced a public inquiry into the Muskrat Falls Project (the “Muskrat Falls Inquiry”). The Muskrat Falls Inquiry will examine the sanction, construction and oversight of the Muskrat Falls Project and the future operation of the provincial electrical system. Public hearings associated with the Muskrat Falls Inquiry are scheduled to begin in September 2018 and continue into the third quarter of 2019.